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28 May 1968

MEMORANDUM FOR: Deputy Director for Support
THROUGH : Director of Personnel
SUBJECT : Employee Voluntary Stock Purchase Plans As Supplement
To Retirement Income

1. This memorandum submits recommendations for your approval in paragraph 7.

2. A preliminary investigative study has been completed by the Office of Personnel of the two supplementary retirement income plans recently publicized in local newspapers. Both of these plans included voluntary employee payroll deductions for stock purchases.

The first plan was purportedly proposed to Congress by the National Federation of Professional Organizations and the Organization of Professional Employees of the Department of Agriculture (OPEDA). This proposed plan would be sponsored by the U. S. Government and directed by a commission composed of representatives from the federal agencies and employee organizations. Federal employees would be permitted to voluntarily authorize deductions from their salaries for investment in common stock. The newspaper account (Tab A) was misleading in that this proposal is not in fact on the agenda of any congressional committee, according to the results of investigation by OLC. Mr. C. O. Henderson, Executive Director of OPEDA, confirmed that he had submitted his proposal informally in a letter to the Chairman of the House Subcommittee on Retirement.

The second plan, which is administered by TVA, has been in effect since October 1966 and is an integral element of the TVA Retirement System program. The TVA informational brochures covering the plan are attached as Tab B.

3. The TVA supplementary retirement income plan is known as the "Tennessee Valley Authority Voluntary Retirement Savings and Investment Plan" also referred to as the "Take Stock Plan."

In essence, the TVA plan is designed to offer its employees the opportunity to supplement their regular retirement benefits by enrolling in a voluntary mutual funds savings and investment program.

Any TVA retirement system member who is currently enrolled for the purchase of U. S. Savings bonds through payroll deductions, may elect to participate in the "Voluntary Retirement Savings and Investment Plan." The plan consists of two investment funds, the

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assets of which are invested in a "capital appreciation" mutual fund and an "income" mutual fund respectively. Both funds are managed by the Fidelity Management and Research Company of Boston, Massachusetts. The employee makes the choice of the fund in which his deductions are to be invested.

The TVA Retirement System Board of Directors has administrative direction of the Plan and selected the mutual funds. The professional investment managers of the two mutual funds make all the investment decisions.

The administration of the plan by TVA includes handling employee investment through payroll deductions, issuance of quarterly statements to each employee participant showing the number of shares held for his account, and upon retirement arranging for processing the employee's election for receipt of equity. All administrative costs are paid by the TVA retirement system.

4. The basic concept of group participation in mutual funds investment by individuals with common interests is well known. Many Agency employees are currently participating in so called "car pool" investment clubs. In general these groups are involved in modest dollar investments with no official Agency participation in these activities.

Most mutual funds charge purchasers (individual or group) of less than \$25,000, 7 to 8½%, with successive reductions to a minimum charge of 1% for investment purchases of \$1,000,000 or more.

According to the TVA Washington representative (Mr. Jacob D. Vreeland), approximately 1/3 of the TVA Retirement System members participate in the voluntary investment plan. TVA has an employee force of approximately 18,000. The minimum investment required in the TVA plan is \$5.00 each biweekly payroll period but a limit is set at no more than 16% of salary in both the retirement and the "Take Stock" plans. TVA plan investors are reported to maintain purchases in excess of \$1,000,000. in the funds which provide them with the advantages of the minimum 1% purchase fee.

Under current tax laws, and interpretations, the TVA "Take Stock" plan holdings are not taxed until after retirement when presumably the retiree's tax category is likely to be lower.

5. The theory behind a supplemental retirement income plan such as presently administered by TVA may appeal to a percentage of the Agency's employees who are interested in stock investments and/or willing to accept the risk involved. Legal authority for administration and payment of related costs both in money and manpower by the Agency must be resolved by the OGC. It would appear that TVA justifies its official participation in administering the plan on the pre-requisite that all employee contributors must first enroll for

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regular U. S. Savings bond deductions.

The TVA informational brochures quite properly emphasize that employee participation is voluntary, that certain risks are inherent and the TVA Retirement Board does not incur any liability because of possible decrease in the value of shares held by the individual.

6. The establishment of an Agency sponsored facility which would encourage long term regular investment savings might well provide our employees with the wherewithal to actively seek early retirement and certainly be better prepared for age 60 retirement.

It is quite possible that administration of an investment plan could be handled by a non-official Agency entity such as the Employee Activity Association rather than directly by an operating component. Administrative assistance in any form would have to be financially supported and become a further charge against the shareholders.

7. It is recommended that:

(a) A determination be made by OGC as to whether a plan such as the TVA Take Stock Plan can be legally administered by the Agency or the Employee Activity Association.

(b) If such a plan can be legally administered, full administrative details and costs experienced by TVA are to be obtained from appropriate officers of the TVA, by the Office of Personnel and a firm proposal submitted by it.

[REDACTED]

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Chief, Retirement Counseling and Placement Staff

Attachments:

Tabs A and B

CONCUR:

R. S. Wattles
Director of Personnel

Date

Above recommendations are approved:

R. L. Bannerman
Deputy Director for Support

Date

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